Oil & Gas

A Few Gems Amid Uncertain Industry Outlook

MARKET WEIGHT
(Maintained)

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Highlights

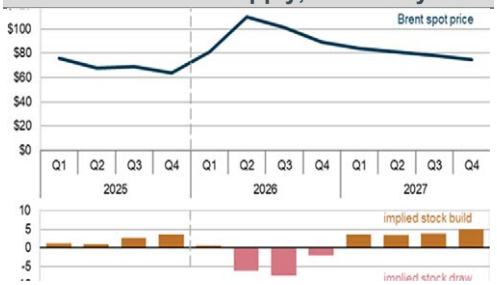
- **Activity will still go on.** In our view and at the very least, oil price forecasts have established a reasonable floor, which represents the only certainty from the US-Iran war, ie the gradual reopening and repairs of damaged production infrastructure. Petronas remains steadfast in pushing and expediting new projects to uphold the target of 2m boepd domestic production while accelerating exploration projects for long-term production.
- **Sector sentiment may remain depressed, but there are gems worth considering.** We believe sector valuations will continue to be depressed due to the ongoing petition against the Sarawak government which carries significant risk on a constitutional level. This is despite Petronas providing more assistance to accelerate Sabah's own agenda for local vendor growth and ownership. Maintain MARKET WEIGHT on the sector, but favour gems like MISC, Dialog, Uzma, Deleum, Dayang and Hibiscus.

Brent Price Forecasts, US$/bbl

Name	3Q26	4Q26	1Q27	2Q27
UOB Economics	100	100	90	90
EIA	101	89	84	81

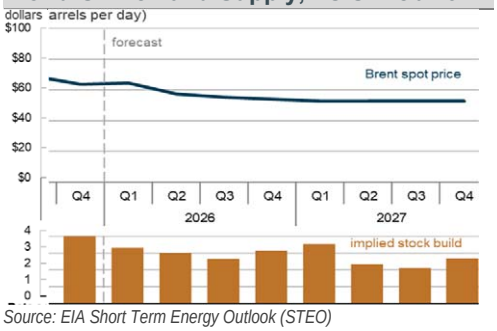
Source: UOB Bank, Energy Information Administration (EIA)

World Oil Demand/Supply, As Of May 26



Source: EIAn (EIA) Short Term Energy Outlook

World Oil Demand/Supply, As Of Feb 26



Source: EIA Short Term Energy Outlook (STEO)

Analysis

- **Oil price forecast floor reflects the certainty of prolonged recovery.** The developments of the US-Iran war, and a likelihood for a resolution (ie an elusive peace deal) remain highly uncertain. Not to mention, markets have not had the chance to digest the OPEC coalition. Still, consensus Brent price forecasts for 2026-27 have altered materially. EIA now forecasts oil price to remain high at over US$100/bbl until Aug 26, from the low US$50/bbl as of Feb 26. In tandem, UOB Economics forecasts Brent price to be US$100/bbl for 2H26 and US$90/bbl for 1H27. We believe the gradual downtrend of oil price forecasts is reflective of the only certainty from the war, ie the gradual reopening and extensive repairs on damaged infrastructure. However, this does not benefit most Malaysian O&G players.
- **Energy security in different forms.** As termed by Tan Sri Mohd Hassan Merican, chairman of the Crisis Management Task Force under the National Economic Action Council (MTEN), the repercussions from the US-Iran event outranked prior oil crises and instead gave birth to a global physical supply crisis. Since Mar 26, countries have responded with short-term mitigation measures for energy security (RHS table). Malaysia had been focused on safeguarding supply continuity and containing domestic price pressures via coordinated emergency procurement with Petronas, diversification of import sources, and tighter supply chain monitoring (including enforcement on fuel subsidy leakages). It may seem that the nation achieved much success in physical supply security; however, the lesser known but increasing effects/risks are the constraint on subsidy burdens and fiscal limits.

Peer Comparison

Company	Ticker	Rec	Price 9 June 2026 (RM)	Target Price (RM)	Last Year End	Market Cap. (RMm)	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Price/ BV ps (x)	ROE 2026F (%)
Bumi Armada	BAB MK	HOLD	0.32	0.35	12/25	1,897	4.2	6.9	6.8	0.3	4.8
Dialog Group	DLG MK	BUY	2.04	2.70	6/25	11,518	22.7	21.8	20.1	1.9	12.3
Deleum	DLUM MK	BUY	1.12	1.75	12/25	450	6.0	6.3	5.9	0.8	0
MISC	MISC MK	BUY	8.16	9.50	12/25	36,425	15.6	13.9	12.4	1.0	7.3
MMHE	MMHE MK	BUY	0.36	0.50	12/25	568	6.2	6.3	4.6	0.4	4.2
Petronas Dagangan	PETD MK	BUY	18.60	23.20	12/25	18,478	16.6	16.7	16.3	3.0	19.7
Uzma	UZMA MK	BUY	0.40	0.76	6/25	243	5.6	4.4	4.2	0.4	10.1
Velesto Energy	VEB MK	HOLD	0.30	0.35	12/25	2,479	16.2	22.7	18.9	1.2	5.3
Yinson Holdings	YNS MK	BUY	2.00	2.75	1/25	6,436	15.5	9.1	10.2	1.4	14.6

Source: Bloomberg, UOB Kay Hian

- **Malaysia's expertise in upstream asset rejuvenation, predictive maintenance and operational continuity continue to be vital** as global disruptions underscore the need for infrastructure rebuilding and energy security. These market shifts are also catalysing regional partnerships/ JVs, and technology investments into automation, digital twin tracking, and low-carbon solutions. Petronas locked in cross-border collaborations to drive oil recovery with Pertamina and PTTEP. This alliance combines technical capabilities and data, to develop fit-for-purpose solutions that prolong production lifetimes. Petronas also has a task force to assess measures to boost production, including technological offerings.
- **Long-term initiatives also crucial to uphold Malaysia's sustainable O&G domestic production of 2m boepd.** While this represents the core KPI for domestic energy security (from upstream sources), there was higher demand for Malaysia's fuel from other consumers, like Thailand which was seeking additional liquefied natural gas (LNG) supplies (from about 2-3 LNG vessels per month). With this and as a means to diversify away from local dependency, Petronas and Eni recently established Searah JV combining 19 assets across Indonesia and Malaysia.
- **A few major FIDs on the horizon.** The Masela PSC and Abadi LNG, a key project under Searah JV portfolio, may reach FID by 2027. Also in 2027, Petronas aims to take FID for the Bujang, Inas, Guling, Sepat and Tujoh (BIGST) PSC. With first gas aimed for 2029, BIGST contains high carbon dioxide (CO2) content but is expected to supply 30% of Peninsular Malaysia's gas demand. Another strategically important gas field was the Kebabangan (KBB) in Sabah. Operated by ConocoPhilips, Phase 2 of the PSC recently achieved FID with total investment of RM1.3b. Other strategically important gas supplies for Sabah's energy security include the Mutiara Cluster PSC (by Dialog Group). In addition, Sabah is pursuing more LNG import terminals, with a 1.2MTPA capacity recently approved.
- **Sector sentiment is still tied to local geopolitical uncertainties.** Petronas did not deny this fact as it admitted shifting more capex to Peninsular Malaysia amid the ongoing dispute with Petros. Traditionally, Petronas spends 50-60% of its capex domestically.
- **2026 is the year of Sabah taking a big leap of faith on reclaiming its right.** Constitutionally speaking, the Sabah Action Body Advocating Rights (Sabar) seeks the Federal Court to act as intervener on Sarawak's petition on the validity of the aforementioned key federal laws, because the issues that also apply to Sabah are the Continental Shelf Act 1966 and the Petroleum Mining Act 1966. Financially speaking, Sabah Maju Jaya (SMJ) had achieved 94% of its implementation rate over 2021 to 2025, including several complete acquisitions (as per RHS table).
- **For Sabah's O&G Service And Equipment (OGSE) value chain,** there will be a stronger push for Sabah companies' vertical growth as well as participation, as Sabah is targeting 60% contract ownership from 30% previously. On top of this, Sabah aims to achieve 80% Sabahan employment rate for OGSE contracts. The idea is for Sabah contractors to not remain in the role of low-margin subcontractors or supplier of raw resources. Since 2021, the number of active contracts secured by Sabah vendors has increased from 133 contracts to 499 active contracts in 2026. 393 Sabah vendors are licensed, vs 2021/2025 equivalent figures of 201/377 licensed vendors respectively.
- **Supported by the Kinabalu Activity Report 2026-28.** The document outlines steady topside major maintenance and integrated well services, especially in Kinabalu and Samarang clusters. Growth in deepwater and decommissioning activities are also key growth drivers for developing Sabah-based talent. In 2025, Sabah vendors scored a historical feat by securing major contracts for Integrated Gas Turbine Maintenance and Platform Support Vessel (PSV)

Energy Security Measures, 2026 Edition

Demand reduction
• Most countries implemented fuel saving measures, including work-from-home policies, reduced electricity consumption, limited official travel and encouraging public transportation.
Price suppression
• Countries with significant strategic reserves, such as Japan, have released stockpiles to stabilise domestic prices. • Countries like Indonesia has expanded fuel subsidies in practice by holding prices steady, prioritising political stability.
Reserve deployment
• Countries with strong refining capacity, like India, are prioritising domestic supply. India has invoked the Essential Commodities Act to increase refinery output for local markets
Export controls
• Countries that are major global commodity exporters, like China, have curtailed exports to retain domestic supply.

Source: Bower Group Asia

Eni-Petronas Searah JV

- Based on Eni's successful satellite model approach.
- Combines 19 assets: 14 in Indonesia and five in Malaysia, with growth driven by Eni-led finds in the Kutei Basin.
- Key goal is to grow from the portfolio's 300,000 boepd to 500,000 boepd within three years.
- Capex expectation over five years is over >US$20b, this is materially above earlier forecast of US$15b.
- Our channel checks indicate that a highly anticipated project which is equally important for Indonesia's energy security, the US$20b Masela Production Sharing Contract (PSC) and Abadi LNG, may see final investment decision (FID) by 2027.
- Inpex had reached preliminary agreements for the project, although moving from these deals to finalised contracts involves complex negotiations and market dynamics.

Source: Petronas, Eni

Petronas' Key Indonesia Upstream Assets

Source: Energy Intelligence

Sabah Maju Jaya (SMJ) Acquisitions

- Acquired a 20% participating interest in the North Sabah Enhanced Oil Recovery PSC in early-26.
- Completed the acquisition of a 25% equity stake in Petronas PFLNG 3 Sdn Bhd to increase upstream and downstream energy ventures.
- Finalised the acquisition of troubled Sabah International Petroleum (SIP) in late 2023, which holds key assets like a 10% stake in Petronas LNG9.
- Acquired a 50% stake in the Samarang Production Sharing Contract and a 25% equity interest in Petronas Chemicals Fertiliser Sabah Sdn Bhd (PCFS) in 2023.

Source: Petronas, Drilling Contractor

Malaysia operations. Other notable projects being executed in Sabah include FPSO KIkeh replacement, Block H-Alum, Permai.

Valuation/Recommendation

- **Maintain MARKET WEIGHT,** a sector call that we have retained since the Petronas-Petros fallout in 2H24, and hence this continues to assume a no resolution scenario. We, however, advise a wait-and-see approach believing that monitoring the Petronas-Petros is still the key event to watch out for, regardless of the outcome of the US-Iran war. If a positive final resolution is made by the Federal Court, we believe this will be material enough to lift most of the MA63 discount on sector valuations since 2H24.
- **Top pick: MISC (MISC MK/BUY/Target: RM9.50),** implying 16x 2026F PE. MISC remains a stock with good near-term catalysts especially due to its exposure to the crude tanker segment. We retain the high 1.4x P/B valuation for petroleum to factor in positive trading sentiment even though spot rates have reverted to pre-war levels. We retain our 25% LNG discount in our SOTP given that we see new risks for LNG in the 2026 horizon (impairment risks and QatarEnergy's LNGC). For the long term, we see increasing capex commitments and vessel deliveries in 2028, which we interpret as MISC playing catch up to deliver all those ships by the stipulated date.
- **Dialog (DLG MK/BUY/Target: RM2.95), the new "upstream champion".** This implies 27x/ 22x FY27F PE and EV/EBITDA respectively after forecasts upgrades. We believe DLG warrants the high EV/EBITDA, relative to its historical three-year average of 12-19x, given the near-term potential for its upstream earnings to surprise on the upside. This is due to the anticipated new production volumes from Cendramas PSC by 3QCY26, and Baram Junior Cluster (BJC) PSC by Oct/Nov 26.
- In the larger context, the rebalancing of DLG's earnings mix away from storage (when DLG used to trade at >30x EV/EBITDA historically) may imply its long-term EV/EBITDA should more closely reflect integrated peers like ExxonMobil (11x) vs pure upstream producers like Hibiscus Petroleum (<2x). We also understand that increased transparency for upstream operations will occur by law, once upstream earnings (excluding Bayan) cross over 25% of group profit. However, we opine that Dialog may deserve premium valuation relative to other upstream producers like Hibiscus, if it pursues early startup achievement for several PSCs including BJC and Mutiara Cluster (and assuming oil prices remain high).

Petronas' Wishlist For Rigs

- Back in 2019, Petronas gave an interview outlining their wish-list for rigs to contribute towards a more cost-effective drilling operations and safer working environments.
- Petronas favours technologies like robotic hand, unmanned rig operations, smart camera/ detection, improving uptime.
- Another angle is fuel efficiency solutions like LNG-powered rigs instead of diesel.
- Enhancement in contract strategies., Petronas likes contracts that govern a single point accountability via a rig contractor. For instance, integrated drilling services (IDS) with a "one down, all down" concept.
- Having a single point of responsibility on the rig ensures smooth execution of operations, simplifies workflows, better risk management, and promotes faster decision making. Consequently, for the rig contractor, it provides them with flexibility and empowerment to manage the operation and have better resource planning and management.
- Acquisition of high quality subsurface/ seismic data will enhance the accuracy of drilling data.

Source: Petronas, Drilling Contractor

Kinabalu Activity Outlook (KAO) Forecasts

Category	2026F	2027F	2028F
• New wells	23	23	20
• Drilling rigs l	3	5	8
• HUC* man hours	0.57m	0.09m	0.18m
• MCM* man hours	1.79m	1.53m	1.24m
• Potential contracts	469	177	319

**Note: Maintenance, Construction and Modification (MCM); Hook up and Commissioning (HUC)*

Source: KAO

Other Stocks with Themes

- Relatedly, Dayang Enterprise (DEHB MK, NR) had partnered with Kinara Energy, a Sabah-led entity focuses on engineering, project development and strategic partnerships to advance local industry participation. The collaboration is intended to set an example business model that transitions and expose local Sabahan companies to core, high-value contracts, thereby building a credible, high-performance Sabahan value chain.
- Hibiscus Petroleum (HIBI MK, NR) is also supporting the growth of the Sabah value chain. As North Sabah is a focal point for Hibiscus's production targets, this PSC requirement mainly supports two industry activities.
- Firstly, wells and drilling opportunities focusing on production enhancement will centre on the South Furious (SF) 30 Waterflood Campaign (Phase 2), infill drilling, and Idle Well Reactivation campaigns across St Joseph, SF and Barton fields.
- Secondly, there are Operation and Maintenance (O&M) scope of works for around 21 platforms, 1 Labuan crude oil terminal (LCOT) optimisation, and 146 wells under the portfolio of North Sabah. The O&M scope may include decarbonisation and borderless initiative, the latter allowing Hibiscus to streamline operations between North Sabah and Kinabalu assets.

Source: Petronas, Drilling Contractor

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